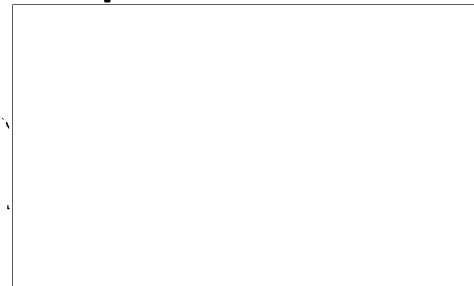




**Director of
Central
Intelligence**

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25X1

Contents

Lebanon: Deteriorating Security Situation 1

USSR-Hungary: Warning on INF 2

[Redacted]

France-Latin America: Foreign Minister Cheysson's Trip 5

Saudi Arabia-South Yemen: Exchange of Ambassadors 6

China-US: Protest Over Arms Sales 6

Poland: Solidarity Taking Stock 7

25X1

25X1

Special Analysis

Nicaragua: Prospects for the Sandinistas 8

25X1

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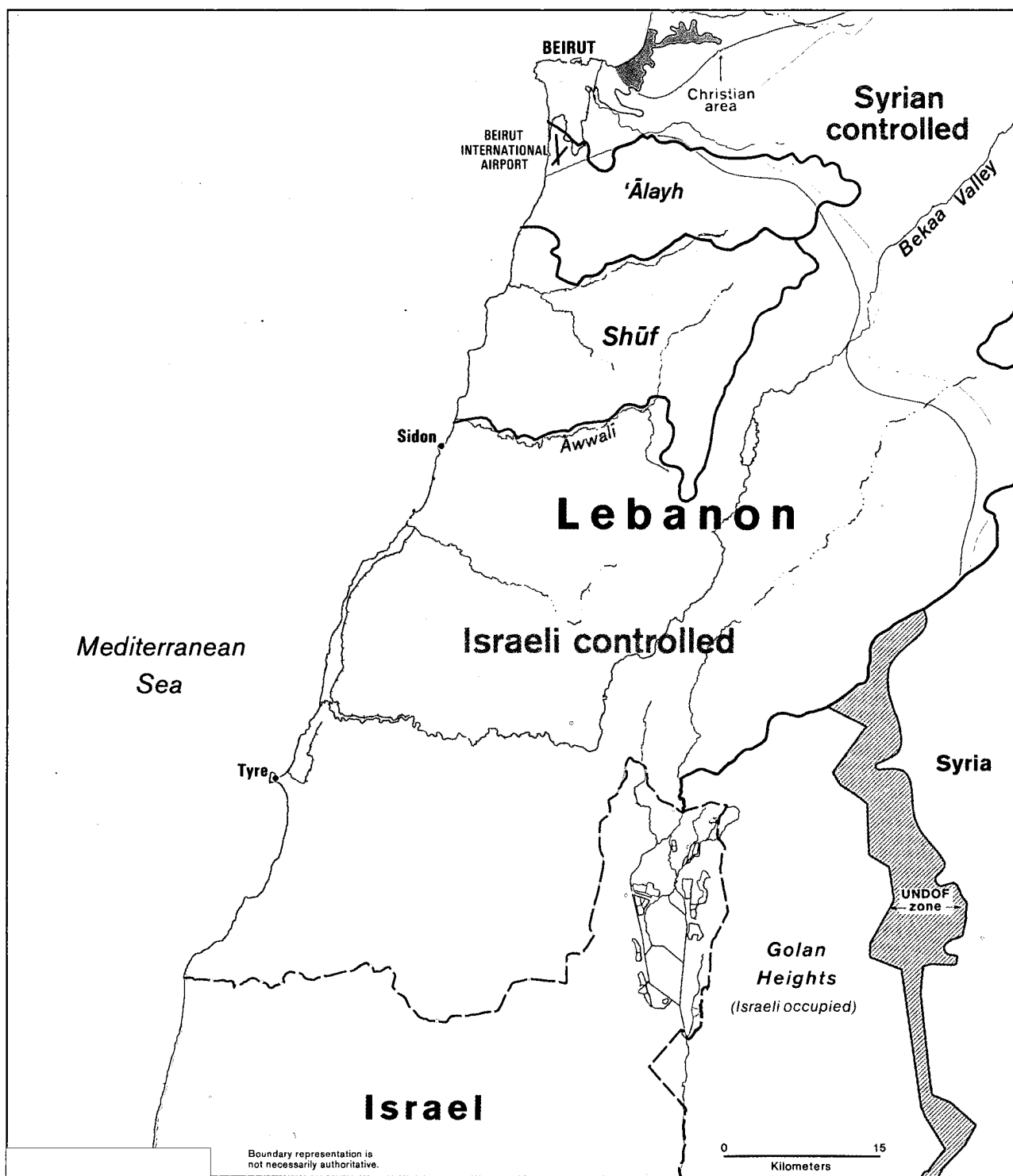


25 July 1983

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25 July 1983

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LEBANON: Deteriorating Security Situation

The security situation in Lebanon could worsen significantly if Shia leaders officially join the Syrian-backed National Salvation Front or if the Christian Lebanese Forces retaliate for the Druze shelling of Beirut last week. [REDACTED]

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Druze leader Walid Junblatt, who announced on Saturday the formation of the Front, has been trying to coax Shia spokesman Nabih Barri to join the opposition group. The Syrian press reported yesterday that Barri supports the Front, but the Shia leader has yet to reject unequivocally the Gemayel government. Junblatt also implied over the weekend that his forces were responsible for the shelling on Friday of the Beirut airport. [REDACTED]

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Despite sporadic shelling, the cease-fire in the Shuf and Alayh districts held over the weekend. Violence in the Bekaa Valley intensified, however, as rival PLO units engaged in the heaviest fighting there since a cease-fire was declared on 4 July. [REDACTED]

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Comment: Although Junblatt announced that the National Salvation Front had formed a political command to administer social services in Syrian-occupied Lebanon, he stopped short of declaring the creation of a rival government. The Front's members have long opposed President Gemayel and already administer their own private fiefdoms. [REDACTED]

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Junblatt and Damascus will work hard to recruit influential Shia leaders such as Barri. Even if Barri continues to maintain a semblance of neutrality, radical Shia groups will engage in terrorist activities in Beirut and may try to provoke violent protests against Lebanese authorities. [REDACTED]

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The Lebanese Forces militia probably will seek to retaliate soon for the Druze shelling. Christian military commanders could launch a major offensive against the Druze to buttress their arguments that they, and not the Gemayel government, are protecting Christian interests in Lebanon. [REDACTED]

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USSR-HUNGARY: Warning on INF

Hungarian party chief Kadar for the first time has joined Moscow in warning of retaliation to NATO INF deployments.

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In the joint communique issued on Saturday after Kadar's five-day visit to the USSR, the Soviets and Hungarians warned that Warsaw Pact countries will take "effective retaliatory measures" if NATO proceeds with INF deployments. In addition, the two sides called for the convening of a CEMA summit to promote further integration of the member states' economies.

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The communique described the talks between Kadar and General Secretary Andropov as having taken place in a spirit of complete understanding. It also reaffirmed the unity of views on major issues between the two parties and governments.

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Comment: Kadar's willingness to subscribe publicly to retaliation for NATO deployments and to support a CEMA summit—both controversial issues between the Soviets and some of their East European allies—represents a diplomatic victory for Moscow. The Hungarians up to now have avoided adopting Moscow's tough line on INF, probably for fear of jeopardizing their economic and diplomatic ties to the West.

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In return for his backing, Kadar—who had little bargaining power—may have gained Soviet support for further economic and perhaps political experimentation at home. Hungary's misgivings about holding a CEMA summit apparently were eased earlier this month when proposals to curtail considerably economic ties to the West were dropped.

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FRANCE-LATIN AMERICA: Foreign Minister Cheysson's Trip

The results of French Foreign Minister Cheysson's coming trip to Latin America, despite the rhetoric, probably will confirm Paris's growing tendency to take a less grandiose view of its role in the region.

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Tomorrow Cheysson will begin his first trip to the region in two years. He will visit Brazil, Bolivia, Colombia, and Cuba.

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The trip to La Paz will be an opportunity to show support for the government of President Siles, a leftist who cooperated in the expulsion of accused war criminal Klaus Barbie. Siles hopes for increased French aid.

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The US Embassy in Paris reports that Cheysson's formal agenda in Cuba will include discussions on the establishment of a French cultural center and on a project for the study of tropical diseases.

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Comment: Since coming to power in 1981, the Socialists have sought to broaden France's political links with Latin America. Their hopes to promote democratic social reforms as an alternative to capitalism and Communism often have led them to support radical movements.

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Recently, however, the French have shown signs of adopting a lower profile in the region in light of their traditionally limited interests, and their current inclination is to let the US take the lead.

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Cheysson will be the highest ranking French official ever to visit Cuba. His trip may be intended in part to help compensate for Mitterrand's refusal to receive President Castro in Paris.

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SAUDI ARABIA-SOUTH YEMEN: Exchange of Ambassadors

Saudi Arabia and South Yemen have upgraded diplomatic relations by exchanging ambassadors, according to a Western press report. The new Saudi Ambassador reportedly arrived in Aden last week, and the South Yemeni envoy is expected in Jidda soon. The two countries have been represented by their Chargés since 1977.

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Comment: The exchange of ambassadors—expected for several weeks—signals Saudi Arabia's desire to encourage the recent moderation in South Yemen's regional policies.

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CHINA-US: Protest Over Arms Sales

China's strong diplomatic protest on Friday of the recently announced \$530 million US arms sale to Taiwan ended a week of mild reaction from Beijing. The protest note asserts that the US is violating its pledge, made in the joint communique last August, to reduce slowly arms sales to Taiwan and not improve the quality of the arms sold. The note—portions of which appeared in the Chinese press—also rejected Washington's refusal to discuss in advance the capabilities of the weapons to be sold. In delivering the protest, the Chinese Ambassador in Washington softened the impact somewhat by remarking that China must speak out in these situations but that Beijing is hopeful that coming high-level visits by Chinese and US officials will lead to improved Sino-US relations.

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Comment: Delaying delivery of the protest for a week suggests that China was groping for a reply that would keep pressure on the US on the arms sale issue without seriously damaging the newly improved atmosphere in relations between the two countries. Although some kind of protest was inevitable, Western press reporting of China's initially muted reaction probably prompted the Chinese to stiffen their public reply. The note's revival of the issue of prior consultation indicates that Beijing will keep pushing on this issue.

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POLAND: Solidarity Taking Stock

Former Solidarity leaders are adopting a wait-and-see attitude toward the lifting of martial law. Lech Walesa this weekend told Western reporters he plans to meet soon with other former union officials to discuss the issue. He vowed to continue pressing the regime to honor the trade union agreements of 1980, but he said the labor movement clearly would have to be "restructured." Underground leader Zbigniew Bujak reportedly has said he also will be consulting with other activists and declared he will not come out of hiding unless the government assures him he can continue his union work. [REDACTED]

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Comment: Walesa probably is waiting for the release of some close advisers before trying to devise a way for labor leaders to continue union activity without risking reimprisonment. He is likely to try to work out some kind of agreement on future tactics with the underground activists and may try to meet with them next month. [REDACTED]

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25 July 1983

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Top Secret

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Special Analysis

NICARAGUA: Prospects for the Sandinistas

Nicaragua's Sandinista government last week celebrated its fourth anniversary amid signs of continued decline in domestic and foreign support. The insurgent threat along the country's northern and southern borders has grown rapidly during the past year. Although the Sandinistas apparently retain their base of support among the lower class and urban youth, a sagging economy is beginning to cause increasing disgruntlement. Many Central American and West European countries that initially supported or quietly sympathized with the Sandinistas appear increasingly disillusioned with their policies. Nevertheless, the regime is determined to continue its hardline domestic policies and has turned increasingly to the Soviets, East Europeans, and radical Arabs for help.

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No foreign leader attended the Sandinistas' anniversary celebration on 19 July—a marked change from the past three years. Junta coordinator Daniel Ortega proposed a new peace plan in which he agreed to multilateral talks, a position he formerly opposed. The tone of his speech was less anti-US than in previous years, but the Sandinistas continue to blame the US for most of their problems and to accuse Honduras of planning a major invasion.

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Growing Insurgent Challenge

The insurgents reportedly now number some 4,500 regular troops, with an additional 3,800 to 6,200 armed ralliers. Although these forces are still confined to the northern and southern border areas and the sparsely populated Atlantic coast, Managua has been forced to mobilize large numbers of reserve and militia forces to confront them. Scarce economic resources are being diverted to the military to meet the threat.

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The Sandinistas have called on the militia to fight the insurgency partly to involve civilians directly in defending the revolution. The regime thus far has been unable to obtain enough volunteers, however, despite its reported use of intimidation, and it plans to conscript the manpower it needs. It also recently announced plans to set up armed cooperatives to combat the guerrillas as part of an accelerated land reform program.

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By portraying themselves as victims of external forces, the Sandinistas have achieved major diplomatic successes, such as winning a UN Security Council seat and hosting a major Nonaligned Movement conference. These victories, however, have been of little

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help to the regime in combating the insurgency. The Sandinistas' initial hopes for the Contadora discussions have been frustrated, and their new peace plan probably is designed to promote discussion of a more favorable agenda. [REDACTED]

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Economic Difficulties

Nicaragua's standard of living fell appreciably last year, and the trend is continuing. Although much of the economy remains in private hands, the nationalization of some businesses, higher taxes on the private sector, and the allocation of scarce credit and foreign exchange to public enterprises have throttled economic activity and caused total investment to drop off sharply. [REDACTED]

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There is mounting evidence that economic problems are causing widespread discontent. The government's recent decision to cut meat exports to ease an acute domestic shortage indicates sensitivity to discontent that threatens its political base. [REDACTED]

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Political Consolidation and Foreign Support

Despite mounting problems, the Sandinistas continue to pursue their original strategy of a gradual transition to a Marxist-Leninist state. During the past year, they have developed a small, tightly knit political party and used mass organizations to play increasingly important roles in the daily life of the average citizen. In addition, the regime has begun to prepare laws in anticipation of elections in 1985, which would institutionalize its power. [REDACTED]

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In recent months the Sandinistas, who purport that the revolution is committed to political pluralism, nonetheless have called on the opposition to support them or be considered an enemy. The state of emergency—the legal instrument for prohibiting most opposition activity—was extended for one year in May. Following the recent expulsion of three US diplomats and arrests of opposition figures, the democratic opposition parties have less room than before to maneuver. [REDACTED]

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The government recognizes that considerable foreign support is necessary for its survival. Ties to the USSR, Eastern Europe, and radical states in the Middle East have grown during the past year. [REDACTED]

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The level of West European economic aid to Nicaragua remains unchanged. Total Western aid has diminished, however, and economic help from Communist countries has assumed increasing

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importance. An estimated 7,000 to 8,000 Cuban military and civilian advisers are providing considerable assistance, and Cuban General Ochoa's reported presence indicates Havana's growing role in combating the insurgency. [REDACTED]

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Outlook

The insurgency is likely to continue to grow. The guerrillas have yet to develop a political base to exploit increasing dissatisfaction, however, and the Sandinistas appear capable of containing the threat with additional Cuban help. [REDACTED]

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Economic conditions probably will continue to worsen and lead to additional losses in domestic support. Nevertheless, the opposition will remain too intimidated to organize mass protests. [REDACTED]

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The Sandinistas are likely to take advantage of any deterioration in the security situation to increase repression and tighten control. Efforts to extend state control over the economy and society will be given priority over rebuilding the economy. The regime will continue to pay lipservice to democratic ideals, but it is unlikely to retreat from its goal of consolidating totalitarian rule. [REDACTED]

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Managua is likely to push for UN involvement in regional peace efforts if the Contadora discussions do not lead to a satisfactory solution. The government will continue its efforts to retain Western support while pursuing gradual economic integration with Communist countries. [REDACTED]

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